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HOUSE OF COMMONS SESSION 1999–2000

SCIENCE AND TECHNOLOGY COMMITTEE

Fourth Report

GLAXO WELLCOME AND SMITHKLINE BEECHAM

Volume II

Minutes of Evidence and Appendices

Ordered by The House of Commons *to be printed*
27 March 2000

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED
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SCIENCE AND TECHNOLOGY COMMITTEE

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The Science and Technology Committee

The Science and Technology Committee is appointed to examine on behalf of the House of Commons the expenditure, administration and policy of the Office of Science and Technology (and any associated public bodies). Its constitution and powers are set out in House of Commons Standing Order No. 152.

The Committee has a maximum of eleven members, of whom the quorum for any formal proceedings is three. The members of the Committee are appointed by the House and unless discharged remain on the Committee until the next dissolution of Parliament. The present membership of the Committee is as follows:[1]

Dr Michael Clark MP *(Conservative, Rayleigh)*[2]
Dr Brian Iddon MP (*Labour, , Bolton South East)*[5]
Mrs Claire Curtis-Thomas MP (*Labour, Crosby*)[2]
Dr Ian Gibson MP (*Labour, Norwich North*)[2]
Mr Robert Jackson MP (*Conservative, Wantage*)[3]
Dr Lynne Jones MP (*Labour, Birmingham Selly Oak*)[2]
Mr Nigel Jones MP (*Liberal Democrat, Cheltenham*)[2]
Dr Ashok Kumar MP (*Labour, Middlesborough South and East Cleveland*)[2]
Mr Ian Taylor MP (*Conservative, Esher and Walton*)[4]
Dr Desmond Turner MP (*Labour, Brighton Kemptown*)[2]
Dr Alan W Williams MP (*Labour, Carmarthen East and Dinefwr*)[2]

On 30 July 1997, the Committee elected Dr Michael Clark as its Chairman.

The Committee has the power to require the submission of written evidence and documents, to examine witnesses, and to make Reports to the House. In the footnotes to this Report, references to oral evidence are indicated by 'Q' followed by the question number, references to the written evidence are indicated by 'Ev' followed by a page number.

The Committee may meet at any time (except when Parliament is prorogued or dissolved) and at any place within the United Kingdom. The Committee may meet concurrently with other committees or sub-committees established under Standing Order No. 152 for the purposes of deliberating, taking evidence or considering draft reports. The Committee may meet concurrently with the House's European Scrutiny Committee (or any of its sub-committees) or the Environmental Audit Committee for the purposes of deliberating or taking evidence. The Committee may exchange documents and evidence with any of these committees, as well as with the House's Public Accounts and Deregulation Committees.

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/commons/selcom/s&thome.htm. A list of Reports of the Committee in the present Parliament is at the end of this volume.

All correspondence should be addressed to The Clerk of the Science and Technology Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 2794; the Committee's e-mail address is: scitechcom@parliament.uk.

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[1] Mrs Caroline Spelman MP (*Conservative, Meriden*) was appointed on 14 July 1997 and discharged on 22 June 1998.
Mr David Atkinson MP (*Conservative, Bournemouth*) was appointed on 14 July 1997 and discharged on 30 November 1998.
Mrs Jacqui Lait MP (*Conservative, Beckenham*) was appointed on 22 June 1998 and discharged on 5 July 1999.
Mr Nigel Beard MP (Labour, Bexleyheath and Crayford) was appointed on 14 July 1997 and discharged on 20 March 2000.

[2] Appointed on 14 July 1997.

[3] Appointed on 5 July 1999.

[4] Appointed on 30 November 1998.

[5] Appointed on 20 March 2000.

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UNPRINTED MEMORANDA

Additional Memoranda have been received by the following and have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords, and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London, SW1. (Tel 0171 219 3074). Hours of inspection are from 9.30 am to 5.30 pm on Mondays to Fridays.

Annexes to Memorandum from The Royal Society of Chemistry

MINUTES OF EVIDENCE

TAKEN BEFORE THE SCIENCE AND TECHNOLOGY COMMITTEE

MONDAY 21 FEBRUARY 2000

Members present:

Dr Michael Clark, in the Chair

Mr Nigel Beard	Mr Ian Taylor
Dr Ian Gibson	Dr Desmond Turner
Mr Robert Jackson	Dr Alan W Williams

Memorandum submitted by Glaxo Wellcome plc and SmithKline Beecham plc

1. THE PROPOSED MERGER OF GLAXO WELLCOME AND SMITHKLINE BEECHAM

1.1 It was announced on 17 January 2000 that the Boards of Glaxo Wellcome and SmithKline Beecham had unanimously agreed the terms of a proposed merger of equals to form Glaxo SmithKline. If the merger is approved by regulatory authorities and shareholders, Glaxo SmithKline will form the world's leading research-based pharmaceutical company. It will be a truly global organisation, domiciled and with its corporate headquarters in the UK, combining R&D excellence, a broad product portfolio and a strong management team.

1.2 Glaxo SmithKline will have a current annual research and development budget of some £2.4 billion a year. It will be a world-class, science-based group with the ability to discover and develop new medicines more effectively and efficiently for patients around the world, and to take advantage of the rapid progress in science and technology.

1.3 This merger—which is expected to become effective in the summer of 2000—will bring together two British companies whose success is built upon research and development. Both Glaxo Wellcome and SmithKline Beecham are research-based pharmaceutical companies whose focus is on the development of innovative medicines that bring significant benefits to patients and healthcare providers. SmithKline Beecham also has extensive vaccines, over-the-counter medicines and health-related consumer products businesses.

1.4 Glaxo Wellcome has a global market share of 4.5 per cent[4], a US market share of 5.4 per cent[4] and a UK market share of 9.7 per cent[4]. In 1998[5], 42 per cent of sales were in the US and 37 per cent in Europe, of which 7 per cent were in the UK. The company has 60,000 employees in 57 operating companies, which supply over 150 different markets. 13,400 staff are employed in the UK. Exports from the UK in 1998 amounted to almost £1.8 billion.

1.5 SmithKline Beecham has a market share in pharmaceuticals of 2.9 per cent[4] globally, 3.9 per cent[4] in the US and 4.7 per cent[4] in the UK. In 1998, 50 per cent of pharmaceutical sales were in the US and 30 per cent in the whole of Europe, of which less than 5 per cent was in the UK. SmithKline Beecham employs about 8,500 people in the UK from a total of 47,000 worldwide. Exports from the UK in 1998 amounted to almost £1.2 billion.

2. PRESSURES BEHIND INDUSTRY CONSOLIDATION

2.1 Healthcare providers throughout the world are increasingly demanding that new medicines must demonstrate not only quality, safety and efficacy, but also greater therapeutic effectiveness and value for money than existing treatments. Companies are therefore seeking to use the rapid advances in science and technology to understand disease mechanisms and create new medicines that cure or substantially ameliorate diseases.

2.2 Partly as a result of the new opportunities to adopt a more science-based approach, pharmaceutical research and development is becoming increasingly expensive—on average, it costs about £350 million and takes between 10 and 12 years to bring a new medicine to the market. This high level of investment in scientific infrastructure and R&D is accompanied by high risk. When a compound fails in the later stages of the development process, investment amounting to many millions of pounds is rendered worthless.

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[4] IMS September 1999.

[5] 1998 is the last year for which audited results are available on the date of submission. Both companies, however, will be publishing 1999 results on 16 February 2000.

2.3 In today's environment, the discovery, development and delivery of new medicines can be more effectively achieved through greater scale, constant adoption of new skills and new technologies, and stringent focus on efficiency. The attainment of critical mass in R&D and the spreading of research activities across a wider spectrum of therapeutic areas have been important drivers of the increasing number of mergers and acquisitions which the industry has experienced over the last five years.

3. SUPPORT FOR UK R&D

3.1 Glaxo SmithKline will have a major research and development presence in the UK, including the Glaxo Wellcome research centre at Stevenage and SmithKline Beecham's Harlow facility.

3.2 Compared to the distribution of sales globally, a disproportionate amount of both companies' R&D is carried out in the UK. In 1998, SmithKline Beecham's global R&D operating expenditure was £910 million, including £330 million in the UK. Total R&D expenditure has grown from £390 million at the time of the merger of SmithKline Beckman and Beecham Research Laboratories in 1989. The company currently employs 5,960 people in R&D (excluding contract staff), of which approximately 40 per cent are based in the UK.

3.3 In 1998, Glaxo Wellcome invested over £1.2 billion in R&D, including £507 million in the UK. The company currently employs 9,270 staff in its R&D division, with 4,500 based in the UK and 2,700 in the US.

3.4 Glaxo SmithKline will maintain the strong links with the UK science base established by both companies. SmithKline Beecham is a very active supporter of the UK academic science base. It provides significant training at the undergraduate (145 sandwich studentships each year) and postgraduate (165 PhD studentships) levels. It leads participation in multilateral LINK, Foresight and Framework Programme 5 research activities and in providing intellectual and financial support (approximately £8 million annually for discovery-associated research activities) to UK universities. SmithKline Beecham has major collaborative agreements with the Medical Research Council, Cambridge University and, in association with other pharmaceutical companies , with Dundee University.

3.5 Glaxo Wellcome has a strong network of partnerships with universities in the UK, across Europe and globally. In 1998, the company spent over £17 million in the UK on fundamental research through a variety of interactions, including participation in collaborative projects, and sponsorship of research Chairs and fellowships. Glaxo Wellcome also supports the training of over 260 PhD students from 54 UK universities and provides one-year work placements for over 240 one-year sandwich placements, who are employed on full contracts. In addition to supporting fundamental research and training for young scientists, some £35 million a year is spent with UK universities, hospitals and institutes to carry out clinical research and therapeutic trials.

4. R&D STRENGTH TO DELIVER LONG-TERM GROWTH

4.1 Rapid progress in science and technology is likely to transform medical practice over the next 20 years, creating potential for significant improvements in the health and quality of life of people throughout the world.

4.2 Fast evolving technologies and advances in the understanding of the underlying causes of disease are leading to fundamental changes in the pharmaceutical industry. In the coming years, genetics and genomics will have a substantial impact on the discovery, development and delivery of medicines. The impending completion of the sequencing of the human genome provides a unique opportunity to identify novel therapeutic avenues, molecular targets, and breakthrough drugs. Pharmacogenetics will significantly impact the drug development process and improve the targeting of medicines to patients through the discovery and application of medicine response profiles using single nucleotide polymorphism (SNP) markers. Glaxo Wellcome's strength in genetics of common diseases and pharmacogenetics and SmithKline Beecham's expertise in genomics will allow the new company to optimise fully the opportunities offered by the sequencing of the human genome.

4.3 Glaxo Wellcome and SmithKline Beecham believe that greater scale and resources will further enhance their ability to sustain investment in the necessary skills, technology and expertise. The merged company will have a world leading R&D organisation combining both companies' complementary expertise and technology, with a current annual R&D budget of some £2.4 billion (not including capital expenditure). It will not just be bigger, but better able to deliver real benefit to patients and healthcare providers by bringing more innovative medicines to the marketplace with greater efficiency.

4.4 SmithKline Beecham and Glaxo Wellcome share similar R&D philosophies and strategies and Figure 1 outlines the complementarity of existing R&D activities. This combination will help Glaxo SmithKline in its aim to become the most productive research organisation in the pharmaceutical industry, creating more drug candidates and reducing time to market through the integration of technologies to:

— find new targets based upon fundamental understanding of disease mechanisms for currently intractable diseases;

— identify "best-in-class" compounds by accessing an extensive chemical library and novel ultra-high-throughput screening technologies; and

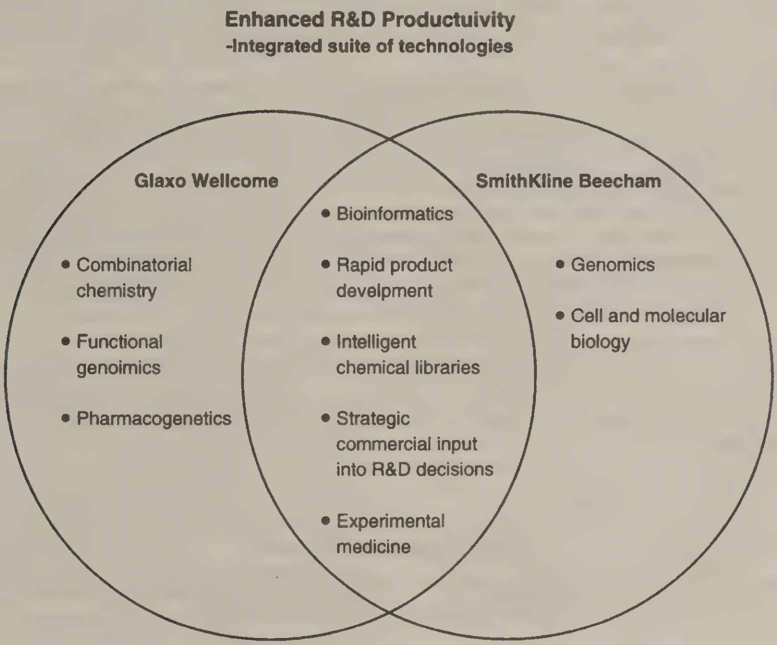
— deliver existing and future medicines according to patients' needs (the right medicine to the right patient).

4.5 Glaxo SmithKline aims to be the most efficient development organisation in the pharmaceutical industry, with the size and expertise which enhances its ability to conduct a broad array of clinical studies on a global scale and to demonstrate the value of its medicines.

4.6 Glaxo SmithKline will have one of the most extensive development pipelines in the pharmaceutical industry, with a total of 30 NCEs and 19 vaccines in clinical development (phase II/III) of which 13 NCEs and 10 vaccines are in full development (phase III).

Figure 1

R&D COMPLEMENTARITY


Enhanced R&D Productuivity
-Integrated suite of technologies
Glaxo Wellcome
• Combinatorial chemistry
• Functional genoimics
• Pharmacogenetics
• Bioinformatics
• Rapid product develpment
• Intelligent chemical libraries
• Strategic commercial input into R&D decisions
• Experimental medicine
SmithKline Beecham
• Genomics
• Cell and molecular biology

5. EMPLOYMENT IMPLICATIONS

5.1 The rationale for the merger is to sustain investment and leadership in R&D and to create a world-leading R&D organisation. Savings from the consolidation of R&D activities (estimated at £250 million pa) will be re-invested into R&D and there is no intention to close any major R&D site belonging to either company.

5.2 It is unfortunately inevitable that job losses will arise as a result of bringing the two companies together, although it is impossible at this stage to be specific about the numbers involved, or how particular locations will be affected. The process will take place over a period of years and, wherever possible, efforts will be made to reduce the impact of job losses through measures such as early retirement schemes, retraining and redeployment. Once there are specific proposals, the company will consult with its employees and their appropriate representatives.

5.3 Mergers do create concern for employees until the new organisational structure and individual roles are defined. Communication and consultation with employees and their appropriate representatives will therefore form an integral part of the management's plans over the coming months. The core principle is to inform all employees as quickly as we can of any decisions that are made. For example, all announcements are made available on the employee intranet sites of both companies. A number of communications activities have taken place since the merger announcement. For ongoing communications, e-mail and notice boards, designated intranet sites, management briefings, videos and all-hands meetings are being used. Whenever external announcements are made, internal communication will be conducted simultaneously.

6. Conclusion—Future R&D in the UK

6.1 The creation of Glaxo SmithKline, as a British-based world leader in pharmaceuticals, with much of its research and development carried out in the UK, demonstrates the strength of British science. In turn, excellence in the UK science base—which is dependent upon public investment to create and maintain world class universities—is essential to sustain excellence in pharmaceutical R&D. While both Glaxo Wellcome and SmithKline Beecham perform R&D on a global basis, there is a shared history of interaction with UK universities for collaborative research and to support student education and vocational training.

6.2 The UK is well-placed to benefit from future investment in R&D as a result of its long tradition of scientific and technological excellence and its outstanding track record in drug discovery and development. However, it cannot be taken for granted that the UK will remain an attractive location for pharmaceutical R&D.

6.3 Both companies have, in the past, expressed concern about the potential adverse impact upon the UK science base of the serious shortage of public funding for research infrastructure. This, combined with a number of weaknesses in science teaching in the UK education system, suggests that much needs to be done to ensure that the UK continues to have a high quality research base and can attract the brightest students into science.

6.4 Against the background of the case made by the Dearing Committee, the House of Commons Science & Technology Committee and a number of other stakeholders, both companies welcomed the increased scientific investment provided by the Government following the Comprehensive Spending Review and the additional funds provided by the Wellcome Trust. It is most important that public investment in research infrastructure continues to be increased, as is happening in many countries around the world, especially the USA and Japan. We must also ensure that our academic clinical and basic research, training and career development can compete with the world's best. In addition, the funding of our leading research departments must be put on a sustainable footing for the long term. These weaknesses in the UK climate for biomedical research and healthcare innovation must be effectively addressed to avoid the danger that the strong UK environment for pharmaceutical R&D could be eroded.

6.5 The commitment of SmithKline Beecham and Glaxo Wellcome to research in the UK is well established. Glaxo Smith Kline will work with the Government, the scientific community and other interested parties to seek to ensure that UK science and technology continues to flourish. The establishment of the world's leading research-based pharmaceutical company in this country can only enhance the prospect of achieving that goal.

14 February 2000

Examination of Witnesses

Sir Richard Sykes, Executive Chairman, Glaxo Wellcome plc, and Mr Jean-Pierre Garnier, Chief Executive Officer Elect, SmithKline Beecham plc, were examined.

Chairman

1. Excuse the slight delay, Sir Richard and Mr Garnier, but as you realise we cannot start ahead of time, although at the last moment I had a slight panic when I looked at that clock which said seven o'clock which is when we should be finishing rather than starting. Thank you both very much indeed for coming before the Science and Technology Committee this afternoon. Sir Richard, you are no stranger to us and we welcome you again. Mr Garnier, you have not been before us previously. Just before we start our questions I wonder if I could ask you both to say a word or two about yourselves? Sir Richard, we know you very well but I think in fairness if we are going to ask Mr Garnier to introduce himself we ought to ask you too. Perhaps you would like to start?

(*Sir Richard Sykes*) I am Sir Richard Sykes, Chairman of Glaxo Wellcome.

2. And have been so for some years.

(*Sir Richard Sykes*) Chief Executive since 1993 and Chairman since 1997.

3. Thank you very much. Mr Garnier?

(*Mr Garnier*) I am JP Garnier. I am the CEO Elect of SmithKline Beecham. I have been working in the pharmaceuticals industry for 25 years. I was trained as a pharmacologist but I also studied business at Stamford University. That pretty much sums it up.

4. We know that you are the Chief Executive designate of the new merged company, but what was your immediate position prior to that appointment?

(*Mr Garnier*) I was Chief Operating Officer of SmithKline Beecham which means that I was running all of the divisions: research, commercial operations, pharmaceuticals, consumer healthcare and so forth.

[Chairman *Cont*]

5. Thank you very much indeed. I wonder if I may start with the first question, but before I do so I would just like to refer back to a session we had with you, Sir Richard, and your counterpart at SmithKline Beecham two years ago when the first merger was talked about. We concluded in our short report at that time that the merger of the two companies would have reflected well on the UK science base and we shared a sense of disappointment that the opportunity to create this new company had been lost. We wondered whether the reason for the merger not taking place had been inadequate assessment of the potential advantages or whether there had been incompatibility of the two sets of management. We thought either way round it was a shame that a great opportunity had been lost for whichever of those two, or other, reasons. That is the background to which we meet this afternoon. We talked about it in the past and there was enthusiasm from our witnesses and I think there was support from the Committee, but now we are back again. Can I ask the first question to Sir Richard perhaps? What are the factors that leads you to believe that a merger of the two companies is possible now in the context of it not being fulfilled two years ago?

(*Sir Richard Sykes*) The rationale for the merger we talked about the last time we were here has not changed but at that time the boards of both companies decided that the time was not right to bring these two companies together. Over time things have changed. We have reached a position now where the boards of both companies are very enthusiastic about this deal. They recognise that today bringing the companies together in the way that we have described will enable us to realise all the potential that we have talked about for so long.

6. Mr Garnier, do you think that we could have got to where we are now without having been through the situation we had two years ago? In other words, was the situation two years ago a false start and from that false start people looked at the situation, did work and enabled something to happen now that is likely to go through to fruition?

(*Mr Garnier*) There is something to be said about practising. In this case it is true that it would have been very unfortunate to go through with the merger and then miss on the execution. The stakes are very high, as you know. There were so many issues which were unresolved. You have to understand that the public discussion of this merger, which was very unusual, created a difficult situation. We have overcome all of those difficulties and we are absolutely convinced now that we can realise the potential benefits of the merger. That is good news for the UK and good news for patients worldwide, and I think we are turning towards the future. Today we are in a position to do it and do it right. You are absolutely right, we learned some lessons from two years back and we have been able to exploit the time to eliminate some of the difficulties that existed.

7. What is to be gained from the merger? What will the advantages be? I hope it will not just be shareholder advantage. I hope there will be shareholder advantage but I hope there will be product advantage, patient advantage, national advantage, science advantage.

(*Mr Garnier*) Clearly you cannot create shareholder value unless you do something that society wants. The essence of our company is to discover new and meaningful medicines. It is no longer possible to do it on the scale that is required with our current size. We could still continue to be successful for a while independently of each other, but the reality is that to discover more drugs and discover them faster we need to put together all our resources, all the new technologies that are available to us, and take full advantage of this new platform of technologies to greatly enhance the productivity of our R&D engine. This is a primary reason for the merger. If we fulfil this destiny and we fulfil this plan there is no doubt there will be the creation of new drugs of great benefit to society and therefore shareholder value will follow.

Chairman: Thank you very much. Mr Beard and then Dr Gibson.

Mr Beard

8. Could you possibly outline the difficulties that existed previously that prevented the merger which have now been overcome to allow it?

(*Mr Garnier*) There were a number of factors and some of them have been mentioned before. Let me just illustrate one of the difficulties of a merger of two fairly sizeable companies. For instance, on the manufacturing side we were organised in totally different ways and we were not able to rationalise our manufacturing systems because the manufacturing line-up was very different at Glaxo Wellcome and SmithKline Beecham. Interestingly enough, by having those discussions and observing best practice on each side we ended up transforming our companies. In the case of Glaxo Wellcome they decided to align their manufacturing supply chain to the way SmithKline Beecham was organised. So today it is very easy, and easy means it is frankly without any great degree of risk, for us to quickly align our manufacturing and supply chain systems so that we have no interruption of supply of medicine to the public. This is just one example of the issues we were facing.

Dr Gibson

9. I want to concentrate on the location of headquarters. You will forgive me because I have come from Norwich today where there is a city in turmoil about where the Norwich Union headquarters are going to be with the merger there. You have made decisions about the operational headquarters and the corporate headquarters. How did you come to those decisions? What is it that you can do over there that we cannot do here I guess would be the precise question?

(*Mr Garnier*) That is a very good point. First of all, let me re-emphasise that the corporate headquarters is in London because from a pragmatic standpoint most of our shareholders are in London. It makes sense to be where our clients, in this case our shareholders and the financial community, are. In terms of the operations, what is important for the UK is that this new company maintains its leadership in the industry. You have now anchored in the UK a

[Dr Gibson *Cont*]
world champion and we want to stay a world champion, we want to grow, we want to be more competitive, and for that we have to take all of the measures that are necessary for us to compete successfully. One of the elements of our business is where the bulk of our revenues come from. We derive more than 50 per cent, 55 per cent, of our revenues from the United States of America, we derive less than six per cent from the UK.[1] It is very important to align our business strategies in the largest market there is. That will benefit the company as a whole. I can guarantee you this is a decision that many other companies have faced and many of them who are truly global players are coming to the conclusion that a small, and I really mean a small, group of people who are responsible for the cóordination of the business strategy should be located in the US market.

10. Do you understand the nervousness in this country of business over the last few years following mergers moving abroad? For example, in the agri-chemical industry there are no headquarters in this country any more. Moving to London is part of the process but, with Europe coming up, are some of these industries going to end up in Europe as well? There does seem to be a trend in that direction in this country which perhaps the Government has not picked up on yet. Do you agree that there is a trend across all types of industries from insurance to pharmaceuticals to move to the States or to Europe?

(*Mr Garnier*) I think there is a trend but I would not overstate the importance of the trend. In other words, if you think about the headquarters, for us it will be less than half a percentage point of the total population of the company that will be in the headquarters. It will not have a meaningful effect on the economy of Great Britain. On the contrary, if you look at SmithKline Beecham as an independent company, we have had our operational headquarters in the US for the last eight years and yet during that period we have more than doubled our research investment in the UK. I want you to separate the two issues. The practicality of having a small headquarters in the US is one thing but the impact on the UK economy is something that is completely different and which is driven by many other factors. I would not necessarily draw the conclusion that this is all bad. What is good is to have a strong company anchored in the UK and for us to be strong we have to compete everywhere in all the markets in which we participate.

11. For our lifetime you do not see it as being seen as an American company?

(*Mr Garnier*) No, absolutely not. We have had the discussion with our respective boards. We want to stay in the UK as long as the environment in the UK is favourable to the pharmaceutical industry, and to research in particular. We have no motivation, in fact it would be against our own interests, to move our operations outside the UK.

12. How long would the merger take? Is it one dinner or two dinners to solve it, or is it a longer process than that? I remember you had a friendly dinner. How long will the merger process take?

(*Sir Richard Sykes*) Before we actually consummate the deal, it will probably take six to eight months. The two rate limiting steps are the regulatory authorities, particularly in the United States, the FTC and European Union in Brussels, and then our shareholders have to vote for the deal that we put in front of them. We would anticipate that that could all be finalised, perhaps, by July or August time.

Chairman

13. What makes you more confident that it will go through this time than it did last time? You must have got to about this stage last time?

(*Sir Richard Sykes*) It is a time process, so there is a limited amount of time that is required to obtain regulatory approval. Last time we were only at the very, very beginning of this process.

14. You are further now, at this minute, than you were when you packed up last time?

(*Sir Richard Sykes*) Yes.

(*Mr Garnier*) Also, we are all together in the same room this time.

Chairman: It is not just dinner, it is breakfast, dinner and tea as well.

Mr Taylor

15. I am tempted to ask the obvious question, are the split offices on either side of the Atlantic to keep the two of you apart? You actually get on with each other?

(*Sir Richard Sykes*) Yes, very well. This is a very important part of the deal because, different from last time, the management structure this time is absolutely clear as to who has responsibility for what. We have been working extremely well together and the teams have been working extremely well together to bring this merger to fruition.

16. You are on the record on that. There were all sorts of allegations about why the first merger broke down. The question I wanted to pick up on is your comment about more research and more drugs being discovered by coming together. Could you just test that hypothesis? Is there an element here of a defensive merger in the research context? There are increasing signs that small companies can be innovative in research, even if ultimately they then enter into deals with companies of your size.

(*Mr Garnier*) It is true that we will continue to see small companies become successful. Of course, many of them will not. There is no secret in the size. What I wanted to illustrate is that the way in which drugs are being discovered is changing rapidly. That is driving, not just our merger, but also other mergers in our industry. In the past, let us be frank, if you had a group of good chemists and a couple of good academic ideas you could try to find new drugs and there was a fair amount of serendipity attached to the process. That was then, and based on that kind of process many companies became successful, but now

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[1] *Note by witness:* The figures quoted relate specifically to SmithKline Beecham but are broadly representative of the situation for Glaxo SmithKline on a *pro forma* basis.

[**Mr Taylor** *Cont*]

you cannot count on serendipity as a process to grow the company. Today what has happened is that suddenly we have a whole flurry of new technologies that allow us to completely re-engineer the process by which we discover new drugs. It is the equivalent, in my view, of what happened in the automobile industry before the assembly line. You had an industry which was a constellation of small players and then suddenly somebody found a new way to make cars and make them very effectively at a very low price, and suddenly the industry consolidated over 20 years or so to become, basically, the top four or five players we see today. We are going through the same phase. Time will tell whether or not this new process of drug discovery will be as successful as we say it will be, there are signs, there are clear signals that it will be. So based on that, we decided it was time to do it. Remember genomic information is a big part of that and the availability of genomic information is changing the game. We did not have that 10 years ago. So the use of genomic information requires enormous financing in research. By applying new techniques and new technologies and not just the resources, but also the quality of our scientists on both sides, we have a chance to really move forward and lead the industry into the future.

Dr Williams

17. Before we leave the location, is there not something fundamentally unstable about a company which has the shareholders in the majority and its corporate headquarters here, but less than 10 per cent of the sales are in Britain, 50 per cent are in the United States? Would there be a temptation to shift the corporate headquarters to the United States as well?

(*Sir Richard Sykes*) The shareholder base is in the UK. If we take both companies together, 75 per cent of the people who own this company actually live in the UK. That is a UK company. If the shareholder base moved somewhere else, so everybody in the UK sold their stocks and everybody in the United States bought our stocks and 80 per cent of our shares were held in the United States, then you might think that it would be reasonable to have the corporate headquarters in the United States, but at the moment it does not make sense. This is where the shareholding base is.

18. Does that go for research and development as well?

(*Sir Richard Sykes*) Absolutely. Today Glaxo Wellcome have about 50 per cent of their research and development in the UK. That is also substantially true for SmithKline Beecham.

Dr Turner

19. How do you think the merger is going to affect the British science base? Do you think it is going to be of benefit?

(*Sir Richard Sykes*) Yes. I think it will benefit the British science base. Having a strong research based pharmaceutical company, the biggest in the world, with an expenditure this year, just on a pro forma basis, of about £2.4 billion into research and development, with roughly half of that investment being spent in the UK, that has an enormous impact on the science base. Obviously, we are hirers of top scientists. We do a lot of work in collaboration with academic institutes, particularly universities and the research institutes. We do a lot of training and development of people, because at the end of the day that is our business. We are putting a lot of money into the National Health Service. We are running clinical trials on our drugs. We are spawning a lot of other smaller start-up companies, because the size of Glaxo SmithKline will be enormous compared to the Biotech Sector. So all these factors, I believe, are going to be very important for the science base in the UK. Remember, we cannot support alone the science base, other companies have got to invest in the way that we do in research and development. Also the Government has to invest. The Government has to make sure that the universities remain competitive in a highly competitive environment and that they continue to fund the universities in a way that the universities can really stay competitive and breed excellence within our top institutions.

20. I guess the bottom line is, are you going to be employing more or less scientists in the UK? How do the research areas that the two companies currently have relate to one another? Is there a lot of overlap? Will you be rationalising or are they largely complementary? How is this sort distribution going to affect the relationships and the links and the collaboration which you already have with academic science in the country?

(*Sir Richard Sykes*) One of the major drivers of this merger is about research and development. It is about investing in research and development. Obviously when you bring these two organisations together—let me say that the cultures in R&D are very similar—there will inevitably be overlaps. There will be duplication in the companies, not an enormous amount, but there will be some duplication. Obviously that will have to be sorted out, but we have made a commitment that any savings that are made in research and development will be ploughed back into R&D. So, if there is duplication, savings from that duplicate effort will be returned to fund further research or research that is already ongoing that does not have the right resources to fund it.

Chairman

21. Mr Garnier, you will be the Chief Executive of the merged organisation, are you content with what you are hearing Sir Richard say? Do you agree with what he is saying about the future way the company will run? If you do not at any time, please feel free to indicate that you wish to say something. If you do not then we will assume that you are agreeing entirely with Sir Richard.

(*Mr Garnier*) That is very kind. If you knew me a little bit more you would not have any hesitation in knowing that when I do not agree I say so. In this case it is very important to understand that Richard and I have been talking about this concept for a while and we are in complete agreement about the vision of the new company. It would be very dangerous if we were getting together and not having the same common vision of the company. I am completely comfortable

[**Chairman** *Cont*]

with what Richard is describing. We have made a public statement, contrary to all the other mergers, that we will reinvest every dollar saved in R&D back into R&D. I think that shows that there is a merger of strong plus strong. The people who cut research are not preparing for the future. If they are cutting research it is because they have no other alternative to survive in a very difficult environment. We have the luxury in a way to increase the size of the engine of the company and that engine is R&D. R&D is the core of our company. We want to be the kings of science and we will be, in the UK and elsewhere in the world. One more word about the growth of our R&D investment in the UK. As you know, SmithKline Beecham opened recently, an absolute state of the art centre for our scientists in Harlow. About three thousand top notch scientists are working there. It is the same situation for Glaxo. It is very important that we continue to find a supply of top notch scientists coming out of academia. The role of the Government is to make sure that they can provide this rare commodity to the companies that invest in the UK. In my view this is more important than any other consideration if you want to guess where the industry is going to invest. It is supply and demand. If there is a supply of top notch scientists, and in the history of this country there is a tradition of good science and particularly good medical science, you cannot lose this, this is a fabulous asset. Frankly, some of the other countries in Europe have lost it by not paying attention to the characteristics of what makes a good scientific environment for companies.

Dr Turner

22. Do you think that the new company structure is going to increase the scope for collaborative efforts with academic science in Britain?

(*Mr Garnier*) Definitely. We want to do more. We are in very close contact with Cambridge University and many other centres in this country. We are growing our R&D expenditure at a fairly fast clip year after year after year. There is always the opportunity to draw on more and more collaborations with academia. I think we have complementary roles. Academia must move the basic science forward and we must exploit the basic science to discover new drugs. There is a natural alliance here that must exist. We will pick the centres for collaboration where the science is at its best. If it happens to be Beijing, we will go to Beijing; if it happens to be London, we will go to London. We have to be competitive. We cannot be parochial in our choice. The best guarantee for British academia to benefit from the merger is to keep the science at the highest possible level of expertise.

Chairman: I think Dr Williams would like to go straight on to that point.

Dr Williams

23. What are the attractions of Britain in terms of research and development? Why are we so attractive to you, to both Glaxo and SKB? Is it the quality of our graduates, our PhD students, and also is it the price perhaps, the fact that academic salaries in Britain are lower than in the United States or continental Europe?

(*Sir Richard Sykes*) We have a very strong history in this country of a science base second to none. We have a very strong history in terms of research and development within the pharmaceutical industry. That is why you see a very strong pharmaceutical industry in this country, not just British companies but all big foreign companies have research and development in this country. What we have to be sure of is that we maintain that investment, not just from British companies but from all companies. We will maintain it providing that we maintain the centres of excellence, that we do not dilute those centres of excellence, that we support the infrastructure of those centres of excellence. We cannot have academics working in sheds and company researchers working in palaces, that is totally unacceptable. As long as we continue to fund the infrastructure and breed excellence in this country then we will get further and further investment in the science base of this country. That is what attracts people to come here, science and technology, because they are the drivers of wealth and prosperity. The sooner we recognise that the better.

(*Mr Garnier*) Can I just add one point which is important. The UK in the past and in the present has been able to attract scientists from the rest of the world and this is certainly true of America as well. This is one of the distinctive factors. If you open your laboratories, your academic centres, to top scientists from under-developed countries, for instance, you are going to enrich tremendously the pool of scientific researchers in this country and we will benefit directly. The Government must maintain the infrastructure, invest in science, but also make foreign scientists welcome in this country and attract them to your centres. There is a tradition of doing this in the UK and that tradition is very important.

24. You mentioned the infrastructure in universities and over the last two years there has been this welcome money going in, Government money. Has that had a significant effect and what do you see for the future of infrastructure?

(*Sir Richard Sykes*) We have to recognise and welcome the influx of money following the Comprehensive Spending Review but, of course, remember we had 15 years of no investment, so we are playing catch-up now. There is some money available and I think the Government have been very generous in that respect—and the Wellcome Trust—but that is catching up with what we failed to do for a long period of time. What we have got to do is to catch up but we have also got to make sure that we keep those institutions well funded and that is the critical issue.

Dr Gibson

25. So why do Japanese post-docs not come to this country? Why do they go to the States?

(*Sir Richard Sykes*) The answer 15/20 years ago would have been they would come to this country but now we have few centres of excellence that are attractive to them and, therefore, they are much more attracted to go to the States where the

[**Dr Gibson** *Cont*]

laboratories are extremely well equipped, where they have state of the art facilities and that is very rarely true in this country.

26. Your merger will affect that in this country, will it?

(*Sir Richard Sykes*) I hope so.

(*Mr Garnier*) This is not a static situation. In collaboration we can help the problem. We have to make that happen. I am not British so I can testify more effectively not being close to the problem. I really believe that the academic centres in this country are still among the best. There is still a lot of attractiveness, there are still prestigious names, there are still prestigious scientists, and you get your fair share of Nobel Prize winners in Science. You can exploit it. There was a trend that was damaging ten years ago when funding was frozen and in fact declined in the late 1980s but we have turned the corner, there is progress and there is clearly a willingness to maintain this important element of this country. That will benefit everybody.

Dr Williams

27. One more to Sir Richard. As I understand it I think you were last year's President of the British Association. Are you satisfied that the quality of people going into science at 16/18/21 is as good now in Britain as it was 20/30 years ago, or is there a danger that as we expand higher education, people are tending to drift more into the arts and media and other subjects and physics, chemistry, biology, medicine are not attracting the high quality people that they were?

(*Sir Richard Sykes*) I think we have all got to be very concerned about that. You are absolutely right, 20 years ago when we took a small percentage of people into higher education the situation was very, very different. The expansion of the universities has led to a greater influx of people but not into the sciences, I am sad to say, into other subjects. This is going to be critically important for attracting inward investment in science and technology in this country to make sure that we are attracting young people to go into science and technology, to make sure that they train, they develop, and people recognise that this is a very important role in life and not just a backwater. I think we still have a long way to go there in attracting better students into science and technology.

Mr Taylor

28. I want to talk about some of the savings and the reallocation, but before I do, Mr Garnier, you comment that SmithKline Beecham R&D spend as a percentage of sales is 11.3 per cent and Glaxo Wellcome is 14.6 per cent. Those are not qualitative figures but they are absolute. Which is the better figure?

(*Mr Garnier*) Let me correct the perception first of all. You have to relate the R&D to the pharmaceutical side of the business. In your statistics SmithKline Beecham owned several businesses at the time which were disposed of, we sold them a year and a half ago. If you look at the percentage of R&D expenditure for SmithKline Beecham it is actually one of the highest in the industry in terms of the ratio of R&D expenditure to sales, which is in excess of 18 per cent. That is a real number to compare to the rest of the industry. The average for the industry is around 16 per cent. We believe in R&D. We believe in spending more in R&D, all things being equal. We believe in quality. It is not just the money but the quality of the efforts that we have been discussing extensively.

29. That statement is obviously very welcome, and the pharmaceutical industry has a wonderful record in relation to many other subjects. If you were able to throw up savings of £250 million and you were to reinvest them, first of all how would you achieve these savings and, secondly, what do you mean by "reinvestment"?

(*Mr Garnier*) If you compare the activities that we pursue at Glaxo Wellcome and SmithKline Beecham, some of those activities will be clearly of a duplicative nature and we do not need to do the same thing twice, so we will eliminate some of those activities because they are two of one when we only need one. The funds that this will gradually generate will be immediately reinvested in the high priority projects selected by the head of R&D of the new company. There are a number of them—expanding, for instance, the field of application of some of the molecules we have recently discovered which we were not in a position to fully exploit because it costs a lot of money to do those large scale clinical trials, putting more molecules in to the pipeline. We have had a number of opportunities to pursue new molecules for new diseases and we have not been able to fund them adequately. You can see there will be lots of competing projects for this £250 million which we will save by eliminating duplication throughout the world.

30. And molecular biology was a strength of SmithKline Beecham.

(*Mr Garnier*) Clearly.

31. You mentioned in an earlier answer the importance of the whole genomics process. Can you succinctly explain how you think that the combination of the strands of research in genomics in the two companies can be strengthened?

(*Sir Richard Sykes*) What is happening at the present time, as you know, is the sequencing of the human genome. This is accelerating an enormous amount of progress, particularly in the pharmaceutical area. The sequencing of the genome is purely like anatomy was to 15th Century anatomists. They could see the information but they did not know what it meant, so there was no function. Some very good anatomy but no function. Now with the genome we have got a lot of information but we do not actually know what it means. So it is converting that information into knowledge, which is genomics, understanding what genes do, how do genes get involved in changing physiology to pathology. That is going to be critically important if we are going to produce drugs of real value. If we are going to get an understanding of the underlying mechanisms of disease we can then target those mechanisms to produce drugs that not only palliate disease but actually cure or have a very significant impact on the disease process. It is those

[**Mr Taylor** *Cont*]

developments that are going to help us overcome the fourth hurdle where many governments and payors are now saying "we do not just want efficacy and safety and quality, we want value. Where is the value that your medicine is bringing to the market?" That, of course, is something that we are going to have to address in a very serious manner if we are going to remain competitive in this business.

Mr Taylor

32. Presumably you are talking about NICE and such other committees that assess value, which is not the same thing as the medical ability to cure or treat patients?

(*Sir Richard Sykes*) No, but there is an extra hurdle saying, "Give me the data, give me the evidence that your drug is really having significant value to health care. Does it cure disease?"

Mr Taylor: I would like to pursue it, but I had better not.

Mr Beard

33. In the memorandum that you provided us with, you say that there is no intention to close any major research centre in the UK currently owned by either company. What is the balance of research between the US and UK in the combined companies?

(*Mr Garnier*) For SmithKline Beecham we have approximately 40 per cent of our total research effort in the UK and 60 per cent in the rest of the world. Besides in the US, we have other centres in other countries. I think for Glaxo it is a similar percentage.

(*Sir Richard Sykes*) 45 per cent in the UK, 40 per cent in the US, and 15 per cent in the rest of the world.

(*Mr Garnier*) The new company will essentially have an extremely important presence not only for the UK, but also for the company. We will have two major research centres. There are actually more than two, but those two represents 6,000 scientists. So that is pretty much the way that the research investment is spread out.

34. What are the changes in research and development at Harlow and Stevenage likely to be, either in extent or nature, as a result of this amalgamation?

(*Mr Garnier*) As we discussed, we have a process which we will be putting in place to maximise the efficiency of the discovery process. That has to do with linking the technologies, which are currently in different places. That does not mean that we have to move those technologies all to the same site, but we have to get the teams to work together. We will also have to make an effort to eliminate some of the duplication that we were discussing and reinvest the proceeds in new programmes. I think that in terms of employment the effect will be minimal. It is more the way in which we conduct our research and the way in which we discover our new drugs that will change. In fact, the structure of the R&D effort will change.

Chairman

35. In answer to the last question from Mr Beard, when you have 50 per cent of your research here and 50 per cent of your research elsewhere, and a large proportion of it in the United States, do you make a deliberate policy of moving some key staff between one location and another for cross pollination purposes and synergistic purposes?

(*Sir Richard Sykes*) Yes, particularly for training and development. It is very important to give people new experiences and to have them develop, particularly if they are going to come back and run big sections of the organisation.

36. So, it is not isolated pools?

(*Sir Richard Sykes*) Absolutely not.

Mr Beard

37. What is the likelihood of either of these two major sites being closed?

(*Mr Garnier*) None. We are very dependent on those two sites. They are state of the art, so we do not have to worry about those sites not being the best they can be. In the foreseeable future we have no plans to close either of them.

(*Sir Richard Sykes*) Those two sites represent £1 billion of capital investment.

Dr Williams

38. Can I put to you the concerns of one of the trade unions, MSF, that sent us a brief? They pointed to the track record of Glaxo Wellcome and the research and development efforts of Glaxo and Wellcome as separate companies. In 1991 to 1995 the total budget doubled in those four years, particularly in Glaxo, and then from 1995 on, when it became one company, it has been stagnant. So in a sense it is like a rise and then stagnant. Is there not a danger here that initially the two R&D budgets add together and then, because of cross rationalisation within it, it stagnates for three or four years, whereas the separate companies, in the case of Glaxo Wellcome, had been growing at 15 to 20 per cent a year?

(*Sir Richard Sykes*) It might be helpful for the Committee to understand that when Glaxo took over Wellcome in 1995 they did so because they were about to lose their patent on the biggest selling pharmaceutical, which was at that point in time selling £2.4 billion a year. The reason for getting together with Wellcome was so that we could at least continue to grow the business and maintain our research investment, otherwise the research investment would have fallen quite dramatically. What we did was put the two research organisations together. I think the reduction was 3 per cent in the first year and then we kept that research and development spend absolutely constant until last year when we increased it.

39. You gave us a strong reassurance earlier for Harlow and Stevenage, but as I recall it, back in 1995 we did have yourself and Wellcome appear in front of us and we had the same assurances for Beckenham?

(*Sir Richard Sykes*) Not from me. We made a very clear statement at that time. We had just opened the Medicines Research Centre at Stevenage where we

[Dr Williams *Cont*]
invested £700 million. The point was that there was a brand new state of the art facility located on the A1(M) with easy access to Cambridge and Heathrow, and we had another facility in Beckenham which was extremely difficult to access. The decision at that time was that we would move the focus of research in the UK to Stevenage.

Mr Beard

40. With the operational headquarters of Glaxo SmithKline in the United States, is it not the case that there will be inevitable pressures to push the balance of research and development investment and spending over to that side of the Atlantic as the years go by?

(*Mr Garnier*) Not really, because first of all the head of R&D will spend a considerable amount of time in the UK. He really is not located particularly here or there, he is wherever the research centres are. His best interests are to make the investment that we have made in this country pay off and make sure that the system that we put in place in the United Kingdom is productive. I will remind you that in terms of new drug productivity, some of the other companies which we are discussing today have invested in the UK because of the good results they obtain from their centres. What determines where additional resources get invested is success. If we are successful and discover drugs in Harlow and Stevenage we have no motivation to put additional investment somewhere else. Success brings success. In the past, if the past is any indication of the future, we have had a great deal of success in our UK centres. I would not draw any conclusion about the operational headquarters, which is once again more designed to direct the business strategy and issues which are more short-term related. The overall R&D strategy is not really related to where the operational headquarters are.

41. Given that the combined research budgets of Glaxo Wellcome and SmithKline come to very nearly a fifth of the total United Kingdom civil research, it is natural that people are worried that this is an implication of the move and that will be diminished. Can we take it that what you are saying tonight is an assurance that the new companies would wish to maintain a very strong presence in research and development, comparable with where it is now, if not greater, in the future years?

(*Mr Garnier*) As we discussed earlier, the future of our investment in the UK is more dependent on the environment in which we operate our R&D centre than anything else. I cannot prejudge what this environment will be in 10 years, 15 years or 20 years. As far as we can tell, in the immediate future, as we have said repeatedly, we do not plan to have any major closing in the United Kingdom, but we intend to continue our operation in the UK, to grow it as we can and to continue our good experience here with the success we have had.

42. With respect, Mr Garnier, that is a conditional assurance rather than an assurance, because you are essentially saying what I think you said in the memorandum that you gave us, which said, "However, it cannot be taken for granted that the United Kingdom will remain an attractive location for pharmaceutical research and development." That conditional assurance is not really all that much of an assurance, because you are saying that it depends on what everyone else does?

(*Mr Garnier*) We are prudent businessmen and we want to make sure that we envision anything that could happen. Clearly, if there was a dramatic change in the environment in the UK which would become very hostile to the pharmaceutical industry, you would not expect us, or anyone else, to continue our investment. We operate in environments which sometimes are very unstable. That has not been the case in the UK. So I want to reassure you that, despite the exact language used in the memorandum, our intent has been to invest heavily in the UK. Nothing has changed. The investment we were talking about was fairly recent. Harlow was opened two years ago. We are very determined to continue to be successful with R&D centres in the UK.

43. What sort of hostile environment would there have to be towards the pharmaceutical industry before you would contemplate changing the present position in the United Kingdom?

(*Mr Garnier*) We can not judge that in isolation, we have to compare it to the alternative sites that could become available to us and the conditions in which we can do research and development in the various sites in the world. I want to push back a little bit here, if I may. The intent is to continue to have a core of R&D for this new company based in the UK. We see nothing today that changes our stand which independently, by the way, was taken very recently to reinforce our R&D investments in the UK. I think we should stay there. Of course the world can always change but today, as we speak, we are not concerned.

44. Can I just press you again because your assurance is very strong. I think Sir Richard said something similar earlier on about government investment in the science base having to be up to scratch or else things would not be the same. What kind of change from today would there have to be before the sorts of assurances you are giving now would be considered no longer operative?

(*Sir Richard Sykes*) If the environment for pharmaceuticals in the UK became so inimical to the industry then there is not a great incentive to invest large sums of money in this country.

45. I am asking you to make that rather more specific. What sort of inimical climate would it have to be?

(*Sir Richard Sykes*) It would be a draconian drug reimbursement.

Dr Gibson

46. If NICE made some more bad decisions perhaps?

(*Mr Garnier*) No. Let me give you an example. I can give you an historic example. In Italy patents were revoked in the 1970s and the country decided they should not support intellectual property. R&D was devastated. Any major company which had a major site at the time basically slowly but surely decided to close their doors which led the Italian Government to do the right thing, which was to

[Dr Gibson *Cont*]

restore intellectual property. Some of those components are critical to our efforts. Without intellectual property we do not exist, it is that simple. Those are draconian measures which have occurred in some countries in the past and would create a situation which would be untenable for us.

Mr Beard

47. So they would be extreme circumstances of that kind, of patent legislation being interfered with?

(*Mr Garnier*) Of course. I can assure you that we will be very vocal if we feel that we are moving towards a situation of that nature. It would not surprise anybody if that was ever to happen. Again, let us bring it back to where we are today. Today there is no such intent. We are here, we are very fortunate to be in the UK in the way we are organised and we intend to take the steps to make our research centres even more productive. We intend to have more alliances with academia. This is all good news for the UK science base. We want that quality to stay, we cannot afford to see it erode over the future.

Chairman

48. We have to move on and Mr Taylor will be next, but just to put us on our mettle—by "us" I mean the United Kingdom—it would not necessarily be a matter of things in the United Kingdom getting worse, would it, it could be a situation where things in this country stayed the same and in one or two other countries got significantly better? That would also bring about a situation of contrasting opportunities that would make you look elsewhere, would it not? I just want to make it quite clear that we must not mark time and stay still, we have got to continue to be as good as you kindly say we are at the present time.

(*Mr Garnier*) I agree. It is true for you and it is true for us as well. Staying in the same place is sometimes dangerous.

Chairman: Staying still is going backwards.

Mr Taylor

49. I will be brief because my points have partially been covered. The key emphasis just recently has been almost on the negative, can we now accentuate the positive? How much extra research could be done in this country? Sir Richard, what things are you still asking the Government to do, for example, to enable you to bring more research to this country?

(*Sir Richard Sykes*) Just going back to the point that was made about one-fifth of the R&D spend will be Glaxo SmithKline, that is a sad state of affairs because if you look at the R&D scoreboard we are always number one and number two, and the R&D intensity of the rest of the industry in the UK is below two per cent. We are 15/16 per cent and the average is below two. The number one priority is to get other people to invest in research and development in technologies. That is of absolutely critical importance to this country. What can we do? Of course we can invest more but that will depend on the centres of excellence. If there are 50 centres of excellence in this country in the areas that we are trying to get knowledge in so we can turn that knowledge into product, of course we will invest in it. It is all about expertise, it is all about people, it is all about knowledge.

50. As a former Science Minister I entirely agree with you. Do you think that Gordon Brown entirely agrees with you?

(*Sir Richard Sykes*) I think the Government are on the right track. I think they recognise the problem and they are putting more resources into the problem but I do not think we have solved the problem. We have to keep this thing moving.

Dr Gibson

51. I am interested in people too. It does seem that there might be a few people less working in your enterprises over the next few years. Your commitment to the academic base is very strong but that means there are going to be fewer students, fewer young people getting positions either as technicians or scientists in your enterprises, is that not so? Is that not a real, real problem and a negative thing for you in this merger?

(*Sir Richard Sykes*) If you look at the history of SmithKline and Beecham and Glaxo and Wellcome you will see that after a short period of time both of those companies grew quite significantly and hired more and more technical and scientific staff. If we really are going to realise the vision that we are talking about by putting these two strong companies together then surely we will be able to outpace the competition and if we can outpace the competition then we can employ more people, we can employ more scientists, we can employ more technologists.

52. Let me challenge you then. How many are you going to get rid of to recruit more and how many more will you recruit?

(*Sir Richard Sykes*) There will be some duplication obviously, we have talked about that, and there will be some redundancies in the UK. It would be foolhardy for us to start making top scientists redundant because those are the people that we rely on for our wealth and prosperity.

53. What about bottom scientists, how do you feel about them?

(*Sir Richard Sykes*) They also have a very important role to play but there will inevitably be some redundancies in this process.

54. In which areas are they most likely to be? By saying "top scientists" you are trying to give us a signal of where they are going to be, it is going to be technicians, it is going to be MSF members as the Union have said and have said publicly.

(*Sir Richard Sykes*) It is difficult to say at this time where those redundancies will be, where those overlaps will be, but that will become clear over the next six months.

55. Will it be a strategic redundancy policy or will you take them from wherever you get them, administrators as well as scientists and technicians? You are looking right across the board, are you?

(*Sir Richard Sykes*) Yes.

56. Not in any particular area?

[Dr Gibson *Cont*]

(*Mr Garnier*) You are going to see duplication. The duplication will drive the process rather than the other way around. If there is a duplication, whether it is administrative or—

57. Administrators duplicate as well.

(*Mr Garnier*) Yes, that is clearly the case. That is why we expect to have some duplication. Again, in terms of employment, remember that we want to maintain the cohesion of the resources applied to the enterprise, so that should not be a very big effect.

58. So the figures of 2,000 to 5,000 are pie in the sky as far as you are concerned?

(*Mr Garnier*) Totally.

59. It could be more, it could be less?

(*Mr Garnier*) We have given no numbers because we are not in a position to give numbers. As soon as we have finalised our plan we will be glad to continue the process.

60. So it will not proportionate in each of the two companies as they are now?

(*Mr Garnier*) Not necessarily.

Mr Taylor: Perhaps you will encourage a few of those redundant to become Members of Parliament, that might be a good idea.

Dr Gibson

61. No, the House of Lords. They may have some expertise which has been missing.

62. Is the United Kingdom still a good base for pharmaceutical companies to do research and development?

(*Mr Garnier*) Absolutely.

63. There is nothing that gives you sleepless nights in this area?

(*Mr Garnier*) We have to have business conditions which are good for the industry, and we have discussed that at length. I will add the point that the growth of R&D effort will be completely related to the growth of the company. We want this Committee to understand that we need to be successful. If we are successful we will reinvest even more in R&D and accelerate the growth that we are talking about. If we are not successful as a company then all kinds of bad things will happen. That is an important consideration in the days of parallel imports and other constraints on our business.

64. You understand that creating conditions where young people who are coming through universities, which you support, feel that the pharmaceutical industry is the place to develop their abilities and talents is exceptionally important. You can say the Government should do this in terms of giving them better Ph.D. contracts, and so on, but what are you going to do for those young people that encourages them to stay with it as the human genome projects explode?

(*Sir Richard Sykes*) As you see from the data, together we have something like five hundred sandwich students working in the two companies. This is critically important because students today at university do not get a lot of practical experience. We feel that we play a very important role in giving these students practical experience, particularly in the laboratories, so they can get a feel for the excitement and the wonder of science and hopefully we attract a lot of those back into the companies. Development is very important, training is very important, we have a role to play in that. It is a partnership, again, we cannot do it alone, we have to do it with the Trust, we have to do it with the Government. If we can get that partnership working then I think we will progress very well.

Chairman

65. Sir Richard, there is a lot of optimism in this merger and we wish you well; we hope it happens as you want it to, but two years ago when we met you and we met Mr Leschly, Mr Leschly did point out to us that some 70 per cent to 80 per cent of mergers of this type do not generate added value. Do you agree with this? If you do agree with it, what are you going to do, or what is right about this present merger to ensure that it falls within the 20 per cent to 30 per cent that do generate added value?

(*Mr Garnier*) Can I just make a comment, if I may, on the statement? The statement is absolutely correct when you look at all mergers. If you look, then, at mergers of companies that operate in the same industry the percentage of success goes up dramatically. The 70 per cent should not be taken completely literally because it applies to mergers of companies that get together and do not even belong to the same industrial sector. They are the ones that are prone to miss, frankly. When you look at one industry and you put together companies that are fairly similar if you go by the rules of the book, you make sure there is a common vision, you make sure that there is compatibility between the companies, that percentage goes way up. Naturally we will work diligently with our boards to ensure that we are part of the success. I want to remind you that, independently of each other, Glaxo Wellcome has been deemed by all observers as a successful merger and certainly SmithKline Beecham has been extremely successful, particularly for the shareholders. Give us the benefit of the doubt. We are going to work very hard to make this merger work.

66. I am very happy to give you the benefit of the doubt. I am very grateful to you for pointing out that this 70 per cent to 80 per cent figure was not necessarily mergers of like with like, it could be water with electricity or something like that, which, perhaps, would not be too surprising. Can I just ask you, perhaps, first you, Mr Garnier, and then you, Sir Richard, there must be some criteria that you have in mind when you are merging companies like your two, depending very much on intellectual property, what are the criteria that you look at and you must get right for the merger to be successful? I am sure that was looked at two years ago and I am sure it is being looked at now. There is probably a host of criteria but there is probably only about three or four that are key, could you give us an idea of what they might be?

(*Mr Garnier*) I think the number one criteria for success, as I see it, is to generate the passion and enthusiasm of our R&D folks to really fulfil the basic concept of this merger, which is certainly to conquer

[Chairman *Cont*]

disease in a meaningful way, and to greatly expand the efficiency of the discovery process. Just think about it, if you had a company that was suddenly on a regular basis coming up with what we call real breakthrough products which would do a lot to resolve the difficulties we experience with the health care system, Alzheimer's and all those diseases which cost a lot of money and suffering to society, I think we have a chance. We have a responsibility to put our best efforts and work day and night to make that happen. If I can feel the same passion and the same enthusiasm in the research organisation and if those people are really completely conscious of their responsibilities and the stakes, which are enormous, I think that the rest will be easy. That is the most important element of success for us for the future. The rest is all hard work but we will be able to do that.

67. Access to capital, does that not enter into it somewhere?

(*Mr Garnier*) We have a very strong balance sheet as a combined company. At the end of the day it is never the money that makes great successes.

(*Sir Richard Sykes*) Joseph Nathan who was the father of Glaxo had a wonderful saying, he said, "The greatest joy in my life is to go to work each day with a pleasurable sense of anticipation." If we can generate that in all of the people that work for Glaxo SmithKline then I would be a very happy man.

Mr Beard

68. Taking that line of questioning a little further, could you say what the specific advantages of research and development are that will be arising from this consolidation of the two companies?

(*Mr Garnier*) The evidence you will observe is that this company will start to have more and more scientific breakthroughs reported to the public at large. Lately you see more and more new elements of pathology being discovered. Glaxo is discovering new genes, we are and discovering new genes and new targets. That acceleration of the process gives you the sense that something is happening and the discovery of new products follows that particular event. The scorecard, so to speak, of the new company, will be the ability to use science and to apply it to the discovery of new drugs which will make a significant difference in various diseases.

69. The question, really, is, what is there about this amalgamation of new resources that will bring on development? What specifically is going to lead to that happy conclusion?

(*Sir Richard Sykes*) There is a paradigm shift taking place within the pharmaceutical industry. In the past drugs, as you have already heard, were discovered usually in a serendipitous way and they were developed and they came to the market. Individual scientists, small groups of scientists, could have a very important role to play in that process. However, today this process is being driven in a completely different way. The industry is based basically on biology. Biology is an unpredictable science. Because of the human genome project and all of the associated technologies it is becoming more predictable and it is becoming more industrialised. Today we use incredible amounts of technology in this process. We can now start to bring all of this technology to bear on one company as opposed to both having bits of it here and bits of it there because it is important to have it in the identification of the target, it is important to have it in the validation of the target, in the drug discovery area, in the development area and bringing products all of the way through the clinic into the market, if you like. Today very, very significant investments are required. Sometimes we are very good at it, in other areas SmithKline will be very good at it. Putting those two groups together we can now get big synergies between the excellence in both these companies.

70. Is it not the case that the best conditions for people to bring out their initiatives and their talents is where they feel secure and well respected in their role? This amalgamation will create a very, very big organisation, is it possible to manage an organisation which is almost without a parallel dimension in the industry? Is it possible to manage it so that you fulfil those conditions and therefore fulfil the expectations or is getting just too big?

(*Sir Richard Sykes*) You have to try and visualise that the scientists are at the core of a big process, they are surrounded by people who are supportive, so the technology is supporting the scientist. There is an enormous amount of infrastructure supporting today's drug discovery and development people. As long as we make sure that the core scientists are still motivated, creative, innovative and they have access to all of the best technology in the world then we will be much more productive than we ever were in the past.

71. Can I just talk about the transition period? In this transition period you are talking about there are bound to be anxieties amongst people as to whether their job is going to go, and that is going to lead to a lot of distraction. How are you going to overcome that over the next two years, or more, as people settle down to two organisations being put together?

(*Mr Garnier*) First of all, it will not last two years. I can guarantee you we will have our new organisation in place in a much shorter period of time. The organisation we will put in place will not necessarily be the classic model of a monolithic organisation because we are so conscious about the point that you brought up, which is, that scientists must operate with the freedom, the independence and the entrepreneurial spirit but they also must be supported by those huge technologies around them. We can organise the company in a way that overcomes that problem. I think the promise of this new organisation will be such that, in fact, we expect many people to overcome their anxieties and very much want to participate in this. The advantage of the merger is also its inconvenience—in inconvenience you create anxieties but you create tremendous excitement because everything is possible. This is your chance to redesign the R&D organisation of the future. Frankly, we have many testimonials today, during this period of anxiety, of scientists who are extremely excited about it. I was catching a plane yesterday to come to this Select Committee testimonial and some person who I had never met in my life approached me and said, "I am

[**Mr Beard** *Cont*]

a scientist at SmithKline Beecham and I am so excited by what you are doing", and so forth. There is a real hope here that we will create something entirely new. Yes, there is anxiety but the anxiety can be a catalyst for action as well.

Chairman: We are coming to the end of our session and we thank you for your patience with us. We just have two more questioners, Dr Williams and then Dr Turner.

Dr Williams

72. You say in your briefing to us that it is important for pharmaceutical companies to attain a critical mass in R&D and the spreading of research activities; how do you define that critical mass?

(*Sir Richard Sykes*) It is coming back to the process again, as it is becoming more predictable and industrialised then the critical mass is very important. If we are going to take advantage of all of the new developments in science and technology we have to have that infrastructure in place. Let us take one good example, with the sequencing of the human genome one produces enormous amounts of data. That data has to be handled through a process called bio-informatics. Today SmithKline do not have enough bio-informaticists and we certainly do not have enough bio-informaticists because the world has a great shortage of them. By bringing the two companies together we will attain critical mass in an area that is absolutely fundamental to the research organisation.

73. You have described to us in several stages this afternoon, very vividly, this new chapter in drug design and an account on the knowledge of the genome; is that a long-term aspiration or can you actually point to drugs on the market today that are being developed today that are a result of this breakthrough in bio-informatics and the knowledge of the genome?

(*Sir Richard Sykes*) Absolutely. It contributes to almost every scientist, I am convinced, working in Glaxo Wellcome and SmithKline today in the drug discovery process. They are using these technologies, they are using this information. We could give you many examples of products that are already in our pipeline that are derived from that knowledge and that technology.

74. This critical mass, as it were, for the size of the company is obviously growing in size decade by decade. The kind of consolidation that we have seen across the pharmaceutical industry is inevitable in that case. In a sense, does that imply that if this merger were not to happen then there would be a merger with other companies or in a sense it is almost inevitable from the way that you have described things?

(*Mr Garnier*) A simple yes will do.

Dr Gibson

75. Are there other genomes you are going to look at as well?

(*Sir Richard Sykes*) Yes.

76. Which ones?

(*Sir Richard Sykes*) Today there are something like twenty-five microbial genomes that have been sequenced. There are other eucariotic organisms that you know have been sequenced. Everything will be sequenced because the more information you have, the better comparators you will have.

77. I was just getting worried, Sir Richard, that you were just depending on the human genome?

(*Sir Richard Sykes*) No. We access private databases and public databases and all that information is pouring in all the time but you need the equipment and the people to deal with that information.

Chairman: A very quick question from Mr Taylor and then Dr Turner.

Mr Taylor

78. Specifically on the genome. I think Professor Roses has actually isolated an Alzheimer gene; is he making good process and looking at the multi-factorial elements of that? Do you envy the bio-technology sector's recent boom in the United States, given that they have not yet achieved the critical mass you have achieved?

(*Mr Garnier*) Are you referring to the stock price?

79. I am allowing you to make a judgment. The stock price is obviously evidence of a degree of enthusiasm for the companies in the sector which, of course, have not yet reached their critical mass.

(*Mr Garnier*) Or a new phenomenon of speculation on small companies, which I think is reflected in NASDAQ. I think that bio-technology has a place but this being said we expect to continue to collaborate with them. There are 800 bio-technology companies in the US. I can tell you that not all 800 will find products. This is a very hard endeavour, to discover new drugs for chronic medicine. They have contribution to make, we work in partnership with them. It is a symbiotic relationship, they need us and we need them. I think that will continue.

80. It is not going to be SmithKline Glaxo.com?

(*Mr Garnier*) Maybe it should be, that would help the stock price.

Dr Turner

81. Talking about critical mass, do you think that the mass that you will be creating with this merger will be the optimal critical mass for R&D? Do you think it could be bigger or do you think that there is a risk that, if it is too big, then it starts to become too cumbersome to become effective?

(*Sir Richard Sykes*) If you look at the NIH they spend about $18 billion a year on R&D. You can spend as much as you like on research, as you know. In our case we have to be producing products to fund that R&D, we are not so lucky to get all that funding from the Government. It will depend on the success of the company but, no, I do not think you can ever cap the size of it.

82. Finally, the factors that have brought you two massive companies together can hardly be unique; do you think that other companies are going to be

[Dr Turner *Cont*]

looking at what you are doing and thinking, "We should be looking for a partner as well, this is the way to go"? Do you think this is likely to happen?

(*Sir Richard Sykes*) Absolutely. We are going to be spending £2.4. billion this year on research and development. The future of this industry is all about R&D. If you are someone spending £1 billion, and we know now why critical mass is important, then obviously you are going to be much more successful, if you are sensible. Therefore it cannot remain competitive, it is not possible. There will inevitably be further consolidation of this industry.

Chairman: A final wrap-up question from Mr Beard?

Mr Beard

83. Sir Richard, you mentioned quite strongly the prospects that arise from the coding of the human genome and how this will be a spur to the industry; are you at all anxious that the present controversy over patenting the human genome is likely to be an inhibition on the aspirations which you were outlining earlier?

(*Sir Richard Sykes*) No. The research based pharmaceutical industry is obviously very dependent on intellectual property, we are not going to spend fifteen years working on something for somebody down the street to copy a week later, so intellectual property is critically important. Intellectual property on genetic information most of the time is not going to be critically important because, as I said earlier, it is nothing more than a piece of information, it does not get you to the next stage, which is the crucial stage, what is it all about? What is the functional relationship between the disease and that genetic information? That is critical to our business because we want to intervene in the process that is creating that pathology. That is where we need to get intellectual property.

Chairman

84. If somebody else has already patented that information could that not be a block on your aspirations?

(*Sir Richard Sykes*) Yes, but there are ways around that situation, we can pay royalties. Again, patenting genes we might do for that specific reason, not to protect them ourselves but to make sure that nobody blocks us from actually working in that area.

(*Mr Garnier*) In the past, frankly, the patents on very early genomic information have just not been effective, so there is no fear. It makes sense to patent something that is truly novel, that is truly innovative and that is truly contributing to society in one way or the other. Those definitions are very difficult ones to meet when you try to patent some small piece of genomic information.

Chairman: Mr Garnier, I was going to conclude the Committee hearing this afternoon on Sir Richard's comment that, "No one is going to block us and we are going to go ahead", I will now finish on your comments that, "We have no fear." I think the two together sum up the optimism, determination and hope which you have for your merged company. Although this Committee will always exercise its option, if necessary, to call into question critically decisions that you might take, we do, of course, wish you well for the sake of your employees, for the sake of patients that you serve and for the sake of the science base in this country. We thank both of you very much for coming along this afternoon and for being so frank with us and for bearing with us for an hour and a quarter when we have questioned you fairly intently. We wish you well. Thank you for being with us.

APPENDICES TO THE MINUTES OF EVIDENCE

APPENDIX 1

Memorandum submitted by the Institution of Professionals, Managers and Specialists

INTRODUCTION

1. The Institution of Professionals, Managers and Specialists (IPMS) is a trade union which represents 74,000 scientific, technical and specialist staff in the Civil Service, research councils, other public bodies and an increasing number of private companies. Our membership ranges from laboratory assistants to chief executives and directors of public sector research establishments. Thus, although we have no direct membership interest in either Glaxo Wellcome or SmithKline Beecham, we have a legitimate and longstanding interest in protecting and developing the UK science base. We also work very closely with MSF, which has a large number of members in both companies, through the Science Alliance. The Science Alliance is an informal grouping of scientific unions, also including the Association of University Teachers (AUT) and National Association of Teachers in Further and Higher Education (NATFHE), representing working scientists on the issues that affect them, whether generated from the corporate sector or from government.

2. Our submission focuses, first, on the wider importance of the R&D activity by Glaxo Wellcome and SmithKline Beecham. Second, we identify concerns about the potential impact of the merger on the science base and on scientific employment. Our submission is a brief one, but we have consulted colleagues in MSF on the implications of the merger and we are wholly supportive of their concerns.

R&D

3. The DTI's 1999 R&D Scoreboard shows that Glaxo Wellcome and SmithKline Beecham continue to be the two top ranked UK companies by R&D expenditure, between them spending more than £2 billion in 1998 and accounting for more than one fifth of total R&D spending. Glaxo Wellcome's R&D expenditure was 14.6 per cent of sales in 1998 and SmithKline Beecham's was 11.3 per cent. This is significantly higher than most other leading UK companies: For example, Shell's R&D expenditure was 0.9 per cent of sales, in ICI it was 2.4 per cent, in Rolls Royce 3.8 per cent and in Unilever 2.1 per cent. This is important because:

- The link between R&D expenditure and both corporate and wider economic success is now widely recognised. The R&D Scoreboard shows that the world's top 300 companies successfully increased sales in line with their increase in R&D expenditure. Within the UK companies that spend more on R&D tend to be more highly rated by the stockmarket. Taking a wider view, and comparing the R&D Scoreboard with the research and experimental development statistics produced by the Office for National Statistics, it is clear that there is relatively little R&D in the UK pharmaceutical sector that is not funded either by Glaxo Wellcome or SmithKline Beecham. However, UK business as a whole invests less in R&D as a percentage of GDP than our major international competitors (see Annex 1). No doubt this position would deteriorate further as a result of any cut in R&D from the companies' merger.
- The expenditure is also used to fund R&D activity in other parts of the economy. Although the scale of financial support is not transparent, it is accepted that Glaxo Wellcome is a major supporter of schemes such as the joint research equipment initiative and the Realising Our Potential Awards. As the Dearing Report showed, there is a pressing need for substantial further expenditure on research infrastructure in universities and the capacity of government to meet this need under current expenditure constraints is severely limited. Government dependence on major private investors is graphically illustrated by the influence exercised by the Wellcome Trust over the decision on location of a new synchroton facility.
- The activities of top ranking research organisations, such as Glaxo Wellcome and SmithKline Beecham, have a high public profile and send out important signals to graduate scientists about their future employment prospects. Science overall in the UK suffers from a poor image largely due to the relatively low status, low pay and job insecurity of scientists compared with other professionals. Further, as shown in Annex 2, since the mid 1980's there has been a steady decline across all sectors in the numbers of staff employed on R&D. This problem can only be compounded by the current uncertainties in what is strongly perceived as the better end of the science labour market, which may well influence the future supply of high quality science graduates into R&D.
- Public sector science has been subject to successive rounds of cuts and efficiency scrutinies. The 1999 Forward Look confirms the major decline in departmental expenditure on science, engineering and technology (SET) over the last ten years. Cuts in expenditure planned by the previous administration were upheld by the current Government during its first two years, as shown in Annex 3. This also shows that the additional money provided by the 1997 Comprehensive Spending Review (CSR), welcome as it was, will do very little to make up for previous cuts. Further, although the

CSR provided for an increase in the Science Budget, there are continuing pressures on budgets and employment in the research councils. Both the Natural Environment Research Council and Biotechnology and Biological Sciences Research Council announced job losses in 1999.

Key Issues

4. Against this background, more is needed than the general assurances so far given by the companies about their future intentions. There can be no presumption that action taken for the corporate interest will also serve the best interests of the science base.

— Will the R&D budget be maintained? There is already recent experience in Glaxo Wellcome of reducing R&D expenditure. The 1995 R&D budget of £1.2 billion was cut by 3 per cent in 1996 and by a further 1 per cent in 1997 before recovering 1 per cent in 1998. Will further cuts be more likely if SmithKline Beecham is a partner rather than a competitor? The companies have already indicated that they expect to save £250 million from overlaps in the R&D budget. Their stated intention is to reinvest this money in science but, judging from experience of the Glaxo and Wellcome merger, there is no guarantee that this pledge will be fulfilled or, if it is, that the new investment will be in the UK. In this regard it is important not only to consider the immediate aftermath of the merger, but also the need for long term continuity of research funding.

— Even if R&D programmes are sustained, what guarantees are there against scientific job losses? When Glaxo merged with Wellcome in 1995 there were about 2,000 R&D job losses and Wellcome's site at Beckenham was closed even though the R&D budget was not cut. A further 1,700 jobs were cut in 1999. As far as the current merger proposal is concerned, the companies have conceded that redundancies are inevitable. They have given no indication of the scale of likely job loss but have not repudiated MSF estimates that there could be between 2,000 and 5,000 redundancies in the UK.

— What are the longer term implications? R&D is an investment for the future and undoubtedly there are potential benefits from consolidating two separate substantial R&D budgets. Equally however, there are concerns that a merged company with a dominant market position may lose the incentive to keep investing in R&D at the same rate as the separate companies do currently. As a former Wellcome chief executive has commented "I don't think big is necessarily beautiful in R&D terms. These mega-mergers are driven more by financial benefits". Interestingly, this view is in line with that taken by the Monopolies and Mergers Commission (MMC) when Beecham and Boots were involved in counter bids for Glaxo. The MMC's conclusion at that time was that two R&D facilities would always do better than one in drug discovery and that amalgamation could damage the UK science base. The regulatory authorities for the current merger proposal are the European Commission and US Federal Trade Commission, neither of which are likely to weigh heavily the potential impact on the UK science base.

— Also important for the future of the UK science base is the location of R&D investment. IPMS is well aware that in a global industry R&D investment will not always be within the UK, nonetheless it is important not to neglect the home market and to sustain technical infrastructure and staff skills for the benefit of the UK economy as a whole. Although in this case it has been stated that major sites in the UK will not be closed, the decision to locate the operational headquarters of the merged company in the US will undoubtedly influence future investment decisions. This could result, either through job loss or relocation, in a loss of highly skilled R&D staff to UK science.

5. As recognised by Dr Ian Gibson in the Science Bill he presented to Parliament in autumn 1999, an eroded science base and insecure scientific employment do not provide a sound foundation for the development of a successful national science strategy. These are key issues that must be addressed by the Government and against which this merger proposal should be evaluated.

28 January 2000

Annex 1

BUSINESS ENTERPRISE R&D (AS A PERCENTAGE OF GDP)

Year	*UK*	*Germany*[1]	*France*[2]	*Japan*[3]	*USA*[4]
1998	1.44	2.07	1.35	1.93	1.99
1989	1.46	2.07	1.41	2.06	1.94
1990	1.48	1.98	1.46	2.15	1.98
1991	1.38	1.81	1.48	2.13	2.05
1992	1.39	1.70	1.51	2.03	1.98
1993	1.40	1.62	1.51	1.90	1.85
1994	1.34	1.54	1.47	1.87	1.78
1995	1.28	1.53	1.43	1.94	1.88
1996	1.22	1,51	1.43	—	1.92
1997	1.18	1.63^{e}	1.38^{p}	—	1.96^{e}

Source: SET Statistics 1999, Table 7.1 from Office for National Statistics (ONS) based on OECD databank March 1999.

Notes:

1. There are breaks in series between 1990 and 1991, and 1991 and 1992.
2. There is a break in series between 1991 and 1992.
3. Data from Japan are adjusted by OECD.
4. Excludes most or all capital expenditure. There is a break in series between 1990 and 1991.

P. Provisional.

E. Estimate.

Annex 2

PERSONNEL ENGAGED ON R&D IN THE UK

			Sector		
Year	*Business Enterprise*	*Research Councils*	*Government Departments*	*Private Non-Profit*	*Total*
1986	188	14	24	7	233
1988	185	13	24	6	228
1990	171	13	24	7	215
1991	159	12	24	7	202
1992	159	13	25	6	203
1993	164	13	22	7	206
1994	157	12	20	7	196
1995	146	12	17	5	180
1996	143	12	16	5	176
1997	139	11	15	6	171

Source: SET Statistics 1999, Table 8.3 from ONS Government R&D Survey.

Note: Employment figures are full time equivalents, thousands.

Annex 3

NET GOVERNMENT EXPENDITURE ON SET (REAL TERMS 1998–99 TO 2001–02)

£m	*Outturn 1998–89*	*Est Outturn 1998–99*	*Plans 1999–2000*	*Plans 2000–01*	*Plans 2001–02*	*% Change 88/89–98/99*	*%Change 98/99–99/2000*	*% Change 99/2000–01/02*
OST	n/a	42	140	171	187	n/a	+233	+33.6
Research Councils	1000.8	1304	1284	1305	1314	+30.3	-1.5	+2.3
TOTAL SCIENCE VOTE	2192.7							
	2,392	2,522	2,621	2,688	+9.1	+5.4	+6.6	
Civil Depts	1,720.4	1,288	1,342	1,319	1,293	-25.1	+4.2	-3.7
Civil Depts exc NHS	1,720.4	897	961	947	930	-47.9	+7.1	-3.2
Defence	2,818.4	2,289.1	2,492.5	2,531.4	2,573.2	-18.8	+8.9	+3.2
TOTAL DEPTS	4,538.8	3,577.1	3,834.5	3,850.4	3,866.2	-21.2	+7.2	+0.8
TOTAL DEPTS EXC NHS	4,538.8	3,186.1	3,453.5	3,478.4	3,503.2	-29.8	+8.4	+1.4
Indicative Contribution to EU	186.3	363	389	429	409	+94.8	+7.2	+5.1
GRAND TOTAL REAL TERMS	6917.8	6331	6,745	6,901	6,963	-8.5	+6.5	+3.2
GRAND TOTAL REAL TERMS (exc NHS)	6,917.8	5,941	6,363	6,529	6,600	-14.1	+7.1	+3.7
GRAND TOTAL CASH TERMS	4,819.7	6,498.8	7,086.2	7,431	7,685	+34.8	+9.0	+8.5

Source: 1999 Forward Look, Chapter 3, Table 2 page 64 and Table 1 page 63.

Note: Base year 1997–98

APPENDIX 2

Memorandum submitted by Manufacturing Science Finance (MSF)

INTRODUCTION

Manufacturing Science Finance (MSF) is the largest staff and scientific union in the pharmaceutical sector. We represent employees in the majority of the UK's established pharmaceutical companies at various levels—clerical and administration, scientific and technical, and some craft grades.

MSF has had a long and constructive relationship with Glaxo-Wellcome, which pre-dates the merger that formed the company.

Historically MSF has had close links with SmithKline Beecham, however in 1990, shortly after SmithKline and Beecham had merged, the company withdrew recognition from MSF. At the time of derecognition MSF had members in technical and managerial areas. MSF retains consultation rights at the Irvine site.

MSF has recently worked closely with both companies at parliamentary level (both national and European) on a number of initiatives.

In Glaxo-Wellcome and SmithKline Beecham the UK has two leading lights in the world pharmaceutical industry. Two years ago when the merger was first mooted the justification in bringing together these two industry leaders was to create the world's foremost pharmaceuticals company. At the time MSF questioned the business rationale behind this move and, now the merger is seemingly back on again, the concerns we raised to the Committee in 1998 still remain.

AREAS OF CONCERN

MSF is not blindly pursuing an anti-merger stance, rather we are keen that the full ramifications of the merger are considered and discussed at all levels before a decision is taken that may have serious consequences for the UK science base and those employed within it. To this end we have been disappointed by the attitude of Glaxo-Wellcome and SmithKline Beecham management towards the link between information and consultation of employees with regard to a decision that will have possible major implications on their employment future. It runs against the grain of the progressive 'Partnership' approach that we try to engender as a union and the spirit of European legislation.

(a) How will the merger affect scientific employment?

Joint company information has already stated that "it is inevitable that redundancies will arise as a result of bringing the two companies together". As yet though we have had no indication of the location or the scope of these "inevitable redundancies".

Our feeling is that the balance of any job cuts will come in R&D and/or manufacturing, due to the geographical locations of the two company's sites there is room for substantial operational synergies.

One such example of where operational synergies may come into play is the two R&D sites in Stevenage (Glaxo Wellcome) and Harlow (SmithKline Beecham). Although these are both "state of the art" research facilities, it is highly possible that the nature and balance of work being conducted between these two sites may alter to the detriment of one or the other with a consequential effect on status and employment. Parallels can be drawn with the R&D site that existed at Beckenham prior to the Glaxo-Wellcome merger. This site was run down over a number of years and eventually closed down. Over a thousand jobs were lost from the Beckenham site and although some of these jobs were relocated, the overall effect has been to reduce the total level of scientific staff.

An area of increasing concern is the fact that, as these companies are major employees of science graduates, we would express concern at any further reduction in employment prospects for this already dwindling supply base. Many young people view science as an insecure career offering relatively low levels of pay when compared with other professional occupations. Employment in R&D performed by UK businesses is already in serious decline, falling by 21 per cent over the period 1989-1996 (Business Enterprise Research and Development 1996: ONS (97) 325—14 November 1997).

(b) What efect will this have on the UK science base

MSF has been working closely with Dr Ian Gibson MP and the Save British Science campaign in bringing to the attention of government the erosion of the UK science base and the need for a national science strategy. Job insecurity amongst scientific workers has also been cited by the campaign as a major area of concern.

MSF has serious concerns over what effect this merger will have on employment in R&D, total R&D spend, the future of Glaxo-SmithKlines UK presence and the cumulative effect this would have on the UK science base.

Glaxo-Wellcome and SmithKline Beecham are giants in terms of UK R&D. With a combined annual spend of £2.1 billion they account for 19.1 per cent of all private sector R&D expenditure, 58.5 per cent of total UK investment in pharmaceutical R&D, which represents twice the amount of R&D investment in the engineering sector. Any reduction in R&D spend would have a major impact on the UK science base, given the significant percentage the two companies account for.

We can see the effect on R&D the merger that formed Glaxo-Wellcome had:

Year	*Glaxo £'000*	*Wellcome £'000*	*Combined £'000*	*% change*
1991	399,000	221,200	620,200	
1992	475,000	229,700	704,700	+13.6
1993	595,000	254,000	849,600	+20.6
1994	739,000	325,500	1,064,000	+25.2
1995	858,000	346,300	1,204,300	+13.2
1996			1,200,000	-0.4
1997			1,161,000	-3.0
1998			1,148,000	-1.0
1999			1,163,000	+1.0

Source: DTI R&D Scoreboard

Although R&D expenditure was not significantly reduced, the new company maintaining levels roughly as they were at the time of the merger, the growth in R&D expenditure that had been seen prior to the merger totally evaporated. Glaxo has subsumed the Wellcome R&D budget in order to provide the cost savings they said the merger would deliver. This is against a background where the average rise in pharmaceutical sector expenditure on R&D is 59 per cent.

Glaxo-SmithKline is promising cost savings of a billion pounds a year. It is a matter of grave concern for employees in both companies as to where these savings are to be made, especially to UK employees seeing as the operational headquarters are to be re-located to the US. This could be interpreted as potentially where the wind is blowing.

Another factor the Committee should take into consideration is the fact that the majority of mergers of this kind fail to deliver the cost savings and value that are predicted when the shareholders are being courted. This is a point that was brought up by Jan Leschly last time he was before the Science and Technology Select Committee and the merger had been called off. Mr Leschly commented "Are you aware on this Committee, by the way, that 70–80 per cent of all mergers do not generate value?". He later adds, "If you look at the value generation we will do as an independent company, the success we will have, the support we will give to the science base in the UK will not be diminished through that I believe. If you look at those two compared with a merger that fails, we are much better off as two independent strong companies." (Science and Technology Committee Third Report, GW & SB: The Merger Proposals, pg 27).

The companies are claiming that they have to merge to remain globally competitive. But some analysts have questioned whether size is key to success in R&D. The rationale between the two mergers that formed Glaxo-Wellcome and SmithKline Beecham was to create globally competitive companies. The above table illustrates the regressive effect this has had on the growth of R&D expenditure and the job losses that inevitably followed. Now, we are led to believe this whole process is necessary again. All the available business evidence points to the fact that acquisitions or mergers have a negative impact on the performance of the companies involved.

For example, one study presented to the Royal Economic Society concluded that the net, long-run effect of takeover bids was to reduce the return on capital of the companies making the bids [*Source:* The Impact of Acquisition on Company Performance: Andrew Dickerson, Heather Gibson and Euclid Tsakalotos—University of Kent, Deptartment of Economics]. Therefore, the effect of the merger will be to reduce the ability of the new company to generate capital to reinvest in R&D.

In short, will competition in a bigger company be more effective in R&D than competition between companies? The merger reduces competition and therefore also reduces pressure to invest sufficiently in R&D. Mergers are often a substitute for capital investment.

If this merger, like the 70–80 per cent quoted by Jan Leschly, fails to deliver value where will the savings be made and why is the merger back on?

(c) Lack of consultation with employees and their representatives.

MSF believes that Glaxo-SmithKline has singularly failed to recognise the rights and interests of their employees when announcing their proposed merger.

The merger release to the Stock Exchange stated that job losses would be inevitable. This was the first that employees of the two companies had heard, despite the fact that merger talks between the two boards had been going on for months previous to that.

Information and Consultation—The two EU Directives affecting information and consultation are: Council Directive 75/129 (Collective Redundancies) as amended by Council Directive 92/56 and Council Directive 77/187 (Transfer of Undertakings). The UK statutory instruments implementing these Directives are: Collective Redundancies and Transfers of Undertakings (Protection of Employment) (Amendment) Regulations 1995; Trade Union and Labour Relations (Consolidation) Act 1992 (S 188).

The Collective Redundancies Directive states: "Where an employer is contemplating collective redundancies, he shall begin consultation with the workers' representatives in good time with a view to reaching agreement." It goes on to clarify the employer's duty to consult over the substantive detail of business plans, avoiding and mitigating job losses. The intention of this Directive is unequivocal and yet it is being ignored and openly flouted by Glaxo-SmithKline.

MSF wants to have open and frank discussions with Glaxo-SmithKline in order that employees have as much information as possible about the various impacts of the merger, be they positive or negative, so that trust and a 'Partnership' style relationship is maintained.

Sir Richard Sykes recognised the need for meaningful consultation last time he was in front of this Committee: "In the UK we employ 5,000 people in research and development, 80 per cent of them have a bachelor's degree, a PhD, or an MD. You cannot mess people around like that, they have to have a clear vision of where you are going and they have got to have leadership, and it is very critical that that happens, otherwise the whole thing might be disaster." (Science and Technology Committee Third Report, GW & SB: The Merger Proposals, pg 10).

It is a shame that these words were not put into practice, instead of leaving our members in the dark.

(d) *Further evidence*

MSF would welcome the opportunity to give oral evidence to the Committee in order to outline our concerns in greater detail.

February 2000

APPENDIX 3

Letter to the Clerk of the Committee from Dr Stephen Benn, The Royal Society of Chemistry

On behalf of The Royal Society of Chemistry I am enclosing the attached items as formal evidence to the Select Committtee which I hope it might find helpful as background material in view of your forthcoming examination of the implications for the UK science base of the proposed merger between Glaxo Wellcome and SmithKline Beecham. The items that the Society are submitting as written evidence to the Select Committee are:

- A summary of a Society study entitled The Impact of Mergers, Acquisitions and Restructuring on the UK Chemistry Infrastructure which was completed in January 2000;[1]
- A copy of the full text of the Society's study;[2]
- An article in the Society's journal *Chemistry in Britain* entitled *UK Chemicals: Going, Going, Gone?* which explores the issues arising in the Society's study.[3]

I should add that the Society undertook its study of the traditional chemical industries excluding pharmaceuticals and that the Society has *not* looked specifically at the pros and cons of the pharmaceutical and biotechnology industries. The Select Committee should not therefore attempt to read across directly from this study to the specific merger that it is examining.

Please do not hesitate to get in touch if the Society can be of further assistance to you.

7 February 2000

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[1] Not printed.
[2] Not printed.
[3] Not printed.

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